Bloomberg.com

U.S. Seeks $458 Million as Gas-Market Cases Expand (Update1)

By Tina Seeley

July 26 (Bloomberg) -- The Federal Energy Regulatory Commission proposed penalties of $458 million against hedge fund Amaranth Advisors LLC, two traders and a pipeline company, as the Commodity Futures Trading Commission expanded its allegations of manipulation in U.S. natural-gas markets.

FERC, which regulates pipeline tariffs and electricity markets, said today it's using for the first time authority to prevent market manipulation it was granted in 2005 by Congress. The commission is seeking $259 million from Amaranth, along with $30 million from trader Brian Hunter and $2 million from Matthew Donohoe, for gas-trading activities in the spring of 2006.

The commission is also seeking $167 million from Energy Transfer Partners LP because of alleged manipulation of the wholesale gas market between 2003 and 2005. Dallas-based Energy Transfer Partners also was the subject of an enforcement action today by the CFTC, alleging the company dumped gas on the market to depress prices.

FERC's action ``sends a message to the industry that they will aggressively exercise their new authority,'' said Peggy Heeg, a partner in the Houston law firm of Fulbright & Jaworski LLP and a former FERC attorney.

FERC said it found that Greenwich, Connecticut-based Amaranth, which lost more than $6 billion in wrong-way bets on natural gas, ``intentionally manipulated the settlement price'' of gas futures contracts on the New York Mercantile Exchange in February, March and April of 2006.

`Annexes the Nymex'

``The FERC's action today effectively annexes the Nymex to its jurisdictional domain,'' Dan Webb, chairman of law firm Winston & Strawn LLP and counsel to Amaranth, said in a statement.

It is ``a very odd test case for the FERC's new anti- manipulation authority, given that Amaranth never actually traded in the FERC's jurisdictional market, and the case is based solely on trading in a market clearly subject to the CFTC's exclusive jurisdiction,'' said Geoffrey Aronow, former director of enforcement for the CFTC. Aronow is now an attorney with Heller Ehrman LLP, representing Amaranth founder Nicholas Maounis.

The commission claimed the authority to fine the company and its traders because the Nymex settlement price is used to determine pricing ``for a substantial volume of FERC- jurisdictional physical natural gas transactions,'' according to a statement from the agency.

Amaranth yesterday was charged with attempted manipulation of gas markets by the CFTC. Both government agencies said their coordinated actions were the result of investigations begun in June 2006.

`Scapegoat'

Hunter's attorney rejected FERC's allegations, saying the commission has ``no legal authority'' to regulate futures markets.

``The truth is that Brian Hunter's trading was completely legitimate and none of these government agencies ever alleged otherwise until recent political pressure required them to look for a scapegoat,''

Michael Kim of New York City-based firm Kobre & Kim LLP said in a statement.

Congressional scrutiny of energy trading has intensified since Amaranth's collapse last year. The hedge fund controlled more than half of the U.S. natural gas market at one time, according to a Senate investigation. Hunter is Amaranth's former head energy trader.

`Lawful and Responsible'

Energy Transfer Partners, which processes, ships or stores about 15 percent of U.S. natural gas output, was accused of depressing gas prices in Texas markets in order to make a profit on certain financial positions.

The company, anticipating a drop in gas demand in Houston after Hurricane Rita in September 2005, stockpiled gas and sold it after the storm made landfall in an attempt to lower prices, the CFTC said in an enforcement action filed today in U.S. District Court in Dallas.

``We believe that our business transactions during the times covered by these proceedings were conducted in a lawful and responsible manner and that no laws or regulations were violated during the course of our business'' Jerry Langdon, a former FERC commissioner who's now chief administrative and compliance officer for Energy Transfer Partners, said today in a statement.

CFTC Acting Chairman Walter Lukken told the Senate on July 12 that the agency is investigating about 100 individuals and companies in the energy sector.

To contact the reporter on this story: Tina Seeley in Washington at **tseeley@bloomberg.net**

Last Updated: July 26, 2007 15:18 EDT